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Papers on the Issues Facing the Conference

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Title:

FLEXIBILITY AND CONSENSUS:
TWIN KEYS TO TWIN GOALS - A FUTURE WITH JOBS,
AND JOBS WITH A FUTURE

Summary:

Great pressure has been placed on the social consensus by high unemployment and budget pressures in all industrialized countries including Canada. Only by rebuilding flexibility and consensus will it be possible for durable jobs to be created and for the inevitable changes to be accepted as opportunities rather than threats.

Flexibility, in the broadest sense, is likely to be the key ingredient in economic success and social consensus the only durable way of supporting it. Governments will need to consolidate public opinion in favour of a more diverse and adaptive society and adjust their policies to achieve more diversity and openness. The role of the social safety net is crucial in providing the link between flexibility and consensus.



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The issues facing the National Economic Conference -- economic renewal, job creation, and consensus-building -- are of central importance to Canada, as to all other countries. They were also the focus of a special OECD Ministerial Conference in the spring of last year. The background paper for that conference (which has been made available to participants in the National Economic Conference) showed the great extent to which Canada's economic problems, and the most promising remedies, are common to most or all of the industrial countries.

All of the countries find their public sectors under fiscal pressure, and their private and public sectors insufficiently flexible in providing new skills and new jobs for the growing labour force. Hence all find themselves under political pressures to soften the impact of world competition on their most hard-hit industries. Most countries find that high unemployment, changing world markets, and budget pressures have combined to put great pressures on social consensus. Building or rebuilding such consensus is, however, the crucial ingredient which will permit the inevitable changes in the structure of production, knowledge, and employment to be seen as opportunities rather than as threats.

There are several benefits from considering national issues in an international context. Although the same fundamental pressures exist in each country, the issues have often been interpreted differently, and responded to in quite different ways. There is therefore much to be learned, both by way of successes to be emulated and mistakes to be avoided. The discussion of national issues with an emphasis on their common features then leads quite naturally to discussion of international issues with an emphasis on policies that make all countries better off instead of protecting one country at the expense of its neighbours.

The striking feature of the OECD conference was the extent to which the common perception of the issues, and of the likely pattern of solutions, appeared to cut across national and political boundaries. The National Economic Conference provides the possibility for the same kind of discussion of longer-term problems in a way that builds consensus about what might be done about them.

What are the key issues, and if it is possible to establish agreement about their nature, why is more not being done about them, and why is unemployment remaining so stubbornly high?

The key issue for the Canadian economy, as for the other economies, is to achieve flexibility of response to the fundamental changes in technology and world markets that have been the hallmark of the last decade, and show every sign of continuing. Where will the jobs be? In what industries, which regions, which countries and requiring which skills? Can Canadians compete successfully in world markets? If, as some have suggested, the world market leadership in forward-looking manufacturing and services is split three ways among the United States, Japan, and Europe, what is to become of Canadian firms and products?

The simple answer to all of these questions is that no one can know in detail where the best opportunities will be, and for how long they will last. It is for just this reason that flexibility and adaptability of skills, of social structure, of management and labour relations, of education, and of products and services have come to be so important. The greater importance of flexibility has already changed the structure of government, business, and community life.

BUILDING FLEXIBILITY AND DIVERSITY IN THE PRIVATE SECTOR

It is no coincidence that in most countries, including Canada, employment growth has been concentrated in smaller firms. These small firms are succeeding not because they are beautiful but because they are fast moving and flexible. The long-sought economies of large scale production have turned out to be much smaller than expected, and often negative, in a world where markets are fast-changing, technologies in flux, and where trust and consensus are increasingly difficult to build and maintain. The march towards bigger and bigger oil sands plants, for example, was spurred by engineers' and economists' calculations that the costs per barrel could thereby be reduced. In fact, as is now widely understood, the theoretically attainable economies of scale go up in smoke when there is a fire at a key stage in the process -- and where the scale is huge every stage is a key stage. In a very large scale operation, every experiment in technique or operations amounts to a gigantic investment decision that can cost hundreds of millions of dollars if it fails.

In addition to making costly shut-downs more likely and innovation less likely, large scale projects tend to become, because of their great visibility, the focal point for regulatory and labour-management disputes. Since any decision has such huge consequences, it becomes a much bigger issue, inflaming disputes before there are enough facts available to make well-informed decisions. A large number of small, yet commercially viable, projects offer the prospect, by their diversity, of much faster

learning about the economic possibilities, while simultaneously avoiding the need for heavy government involvement and subsidies. Because of their diversity and their great numbers, small-scale ventures are less likely to attract special taxes when they are very successful and less able to have the political power to demand and get government subsidies and protection when they are not successful.

THE ROLE OF NEW TECHNOLOGIES

How do the new technologies affect the prospects for future job creation? It has been suggested¹ that the new generation of intelligent machinery will make human workers obsolete in the same way that working horses were replaced by tractors, trains, and cars. This is no idle speculation, as each new generation of equipment typically does require less labour than the one before. This need not lead to fear of general unemployment, however, as labour-saving technological change is both the cause and the consequence of the dramatic increases in per capita real incomes and real wage rates that have taken place over the past century.

There are even some indications that the wide application of ever-cheaper microprocessors will help to reduce the possible adverse short-term employment impacts of technical change by making capital equipment much more flexible at very little additional cost. This helps to make factories and offices more able to alter their products and procedures as demands change. These smarter and more flexible machines contribute to the re-emergence of small firms (e.g. neighbourhood bakeries) that can match the costs and beat the service of large-scale assembly line factories.

Finally, there is the possibility that the fast-dropping costs of flexible equipment will reduce the amount of capital investment required to support new jobs. Capital goods that can be reprogrammed need not be scrapped, thus offering the possibility that new technologies should be capital-saving as well as labour-saving. To the extent this happens -- and no-one who has seen a tiny chip do what a roomful of machinery used to do can doubt the possibility -- it will make it even easier for the economy as a whole to produce more jobs without requiring increases in the share of national income going into savings and investment.

LABOUR MARKET FLEXIBILITY

Stubbornly high unemployment rates are an element of most medium-term forecasts for Canada and many other OECD countries. Canada has had a faster rate of job creation since 1973 than any other OECD country (more than 2 per cent per year), but it has also had the fastest growing labour force, and unemployment remains high and unevenly distributed. The changes

in the size and structure of employment that have taken place show that there is a lot of flexibility in Canadian employment; the continuing high level of unemployment suggests there is room for more.

In the international arena, calls for more labour market flexibility are sometimes taken by labour and management groups as shorthand for lower wages, or for making it easier for managers to fire workers. These perceptions are too narrow, and are potentially dangerous because they threaten the very consensus that is essential for building more useful and enduring forms of flexibility. It is true in many circumstances that changes in real wages and employment are necessary, especially to maintain incentives and to help balance labour shortages and surpluses. However, simply to make it cheap and easy for employers to fire workers does not build true flexibility, any more than laws prohibiting dismissals can preserve jobs for long. What does build true flexibility?

THE LINK BETWEEN FLEXIBILITY AND CONSENSUS

Over the longer term, the really important flexibility is that which permits firms to see and grasp new opportunities, and to be both imaginative and relentless in the search for better and cheaper ways of doing things. This is most likely to be achieved by breaking down rigid and traditional barriers between employers and employees. If the rights, responsibilities, risks and rewards are shared more completely, much more time is likely to be spent on productive innovation and much less on struggles to assert rights to a larger or more secure position.

This is perhaps the most transportable lesson from the Japanese economy, which has managed to achieve great flexibility while still providing stability of employment and by far the lowest unemployment rate in the OECD. The Japanese experience has shown that even large firms can be flexible and timely in their responses if they take a sufficiently forward-looking view in their investment and employment decisions and maintain a high enough degree of innovation and consensus. In a sense, some Japanese firms achieve at a corporate level what other countries hope to achieve at a national level: stability and continuity of employment coupled with enough flexibility and breadth of skills to permit old activities to be phased out, and new ones brought in with a minimum of economic and social stress.

If flexibility, in the broad sense I have used it, is likely to be the key ingredient in economic success, and social consensus the only durable way of supporting it, what are the implications for public and private policies and decisions? If trust and co-operation are to be used to any extent to replace contractual rights and obligations in running businesses and governments, progress must necessarily be slow, and determined more by gradual changes in the way people do things than by government laws and pronouncements.

A NEW CONSENSUS ABOUT THE ROLE OF GOVERNMENT?

There appears to be a growing consensus, within and among national governments, that government policies should encourage diversity and flexibility of the private sector, and that governments' own expenditures and taxes should be designed so as to provide: a stable framework for private decision-makers; a medium-term fiscal plan designed to halt or reverse the growth of government debt relative to GNP; and a flexibly efficient provision of infrastructure and public services. The next step is to translate this apparent consensus in a timely way from rhetoric into supporting policies, and hence to test it against political and economic reality.

The increasing emphasis on establishing a stable policy framework is probably a consequence of governments having less confidence, less political support, and less financial ability than formerly to engage in direct job creation. On the other hand, it does not mean that governments can or should simply withdraw their social and economic commitments and hope that an energetic private sector will immediately move in to create jobs on the necessary scale.

Building or restoring the economy's ability to adapt takes at least as long as to rebuild run-down air and water quality, and requires a similar mix of private and public sector innovation, good will and tough decisions. If the economy is sufficiently diverse and open, it is likely to be both efficient and flexible in the provision of all goods and services.

Investment is needed to achieve more flexibility, and a more resilient private sector. It would be wrong to focus on traditional bricks and machines, or even work stations and microchips, in the private sector as what is needed. Consensus-building and knowledge-building are probably more important than factory-building, when the need is to achieve a more adaptive social and economic structure. The responsibility of governments cannot be absolved just by cutting their expenditure and deficits; any more than the problems of the private sector can be explained entirely by government regulations, government deficits, and "unfair" foreign competition.

What governments need to do is to see better the impact of their current policies on the resilience of the economic fabric, to consolidate public opinion in favour of a more diverse and adaptive society, and to adjust their policies carefully in the ways required to achieve more diversity and openness. Since all governments will be experimenting with alternative ways of achieving more adaptability, each has much to learn from the experiences of others.

MAINTAINING INTERNATIONAL FLEXIBILITY

The federal government, with its constitutional responsibilities for foreign trade, and for ensuring interprovincial mobility of goods and services, must be the main guardian of the openness of the national and world economic systems. This is no easy job when unemployment is high, when many industries are feeling the pinch of foreign competition, and when other countries are drawn into direct or indirect protection of everything from agriculture to high technology.

Canada's long-run interests, like those of the world as a whole, are likely to be best served by a genuinely multilateral system even if it may sometimes seem easier and more attractive to make special arrangements with major trading partners. The gains from bilateral arrangements are too often at the expense of the rest of the world, and therefore threaten the stability of the multilateral system. The payoff of the open multilateral system is not so much the classical gains from trade, which admittedly are important for a country with Canada's size and resource mix, but because such balanced trading links are likely to be more politically and economically robust in the face of change. A world of economic blocs can become a world of power blocs, subject to increasing risks of conflicts of all sorts. Only the open system is likely to offer the potential for flexibility and consensus in the international arena, and it is up to the federal government to make sure that the commitment to these goals is not jeopardized by yielding to requests for quotas or other devices to protect domestic jobs from foreign competition. Nor should the federal government be tempted to treat the foreign exchange rate as a short-term tool for job creation, for all of the same reasons.

THE IMPORTANCE OF THE SOCIAL SAFETY NETS

The role of the social safety nets is crucial in building both flexibility and consensus. If the safety net policies are to be effective in building flexibility, they must operate more like trampolines than safety nets, providing support at the crucial times along with the spring to help those endangered by change to bounce back equipped with new skills and opportunities.

The safety net policies also provide an important link between flexibility and consensus. Without a safety net, there could be no consensus that the inevitable short-run costs of change are being shared in an equitable manner. Without such consensus, each of the social partners (as governments, employers, and employees are often described in the OECD) has great power to resist change, and none has sufficient power on its own to effectively adapt the economic structure to take advantage of new opportunities.

Provincial governments, with their more direct constitutional responsibilities for matters relating to education, training, and employment, have a tall task in ensuring that the mix of education and retraining is sufficiently robust to meet the changing demands that will be placed on it. To be effective, much of this needs to be linked with the basic social safety net policies, and harmonized across provincial boundaries. Consensus-building among governments will come into play here as well.

However much governments are able to improve the quality of the services they provide, they are likely to have to work within a share of GNP that will no longer be rising as it has in the past.² In any event, the major increases in economic adaptability are not likely to come from the public sector at all, but from changes in the ways in which firms, unions, and citizens generally view themselves, each other, and the rest of the world.

Governments may occasionally get the chance to start the ball rolling, as the federal government hopes to do with the National Economic Conference. Such meetings can have an important function if they give the participants new insights into each other's difficulties, and generate a shared view of their common problems. The preceding pages have also suggested a number of ways in which changes in government policies could help to increase both flexibility and consensus. The biggest gains, however, are not likely to arise from conferences, discussion papers, and government budgets but from a long series of changes in the way things are done and interests are shared within families, schools, companies, and communities.

1. By W. Leontieff, the Harvard economist who developed input-output modelling, in his paper "Technological Advance, Economic Growth and the Distribution of Income", Population and Development Review 9, No. 3, (September 1983).
2. For the average OECD country, total public expenditures, including transfer payments, rose from about 30 per cent of GNP in 1963 to about 50 per cent in 1983. The Canadian increase was slightly less than average, from about 30 per cent in 1960 to 47 per cent in 1983.